

**SUMMARY OF MAJOR CHANGES TO
DoD 7000.14.R, VOLUME 4, CHAPTER 14
“IMPROPER PAYMENTS”**

All new text is denoted by **blue font**.

This is a **new** DoD Financial Management Regulation (DoD FMR) chapter denoted by a blue star symbol ★ that precedes the chapter heading and Table of Contents.

Hyperlinks are denoted by **underlined, bold, italic, blue font**

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Entire Chapter	<p>Chapter 14 implements policy and guidance to reduce and eliminate improper payments; and report results in accordance with:</p> <p>Improper Payment Information Act of 2002 (IPIA); Office of Management and Budget (OMB) Circular A-123, Appendix C, August 10, 2006; OMB Circular A-136, Section II.5.7, June 8, 2008.</p> <p>Policy to comply with IPIA and OMB guidance was previously distributed in Deputy Chief Financial Officer (DCFO) policy memorandums.</p>	Add



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CHAPTER 14

IMPROPER PAYMENTS

1401 OVERVIEW

140101. Purpose. This chapter establishes the Department of Defense (DoD) policy for compliance with the Improper Payment Information Act (IPIA) of 2002 (Public Law 107-300) and implementing guidance from the Office of Management and Budget (OMB) Circular A-123, Appendix C, “Requirements for Effective Measurement and Remediation of Improper Payments.” The primary purposes of this IPIA guidance are to require quantification of improper payments, consolidate departmental IIA reporting requirements, and to provide for development and implementation of plans to reduce and eliminate future improper payments.

140102. Applicability

A. All DoD Components that process (compute) payments must conduct risk assessments of their payment processes in order to identify areas susceptible to significant improper payments, and establish controls to mitigate risks. Components must conduct random postpayment reviews of a statistically valid sample population to estimate improper payments for the total population. The root causes of improper payments must be identified and corrective actions developed to reduce and eliminate future improper payments. Improper payment reduction targets must be established and reviewed annually. Components must report postpayment review results quarterly for Travel Pay and annually for all other DoD IPIA Programs to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), Accounting and Finance Policy (A&FP) Directorate. The A&FP Directorate reports Departmentwide results annually to OMB and in the Agency Financial Report (AFR).

B. IPIA reporting requirements are not applicable for classified information. DoD Components that process classified information must comply with IPIA requirements to reduce and eliminate improper payments, but are excluded from the reporting requirements.

1402 DEFINITIONS

140201. Improper Payment. An improper payment is any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts include overpayments and underpayments (including inappropriate denials of payment or service). An improper payment includes any payment that was made to an ineligible recipient or for an ineligible service, duplicate payments, and payments for services not received. In addition, when a Component is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error.

A. All erroneous payments are improper payments. The term “erroneous payment” is afforded the same meaning as “improper payment” within OMB Circular A-123, Appendix C, which uses the terms interchangeably. This chapter does not use the terms interchangeably.

B. This chapter does not use the term “erroneous” payment because not all payments that are “improper” under the IPIA are “erroneous” for other purposes. For example, a disbursing officer who makes a duplicate payment or a payment to the wrong payee has made an “erroneous” payment. By law, such payments result in payee indebtedness to the United States Government, and thus should be recovered from the payee. As provided for in Volume 5 of this Regulation, disbursing and certifying officers potentially are financially liable for such payments if such erroneous payments are not recovered from the payee. In contrast, underpayments clearly are “improper” for IPIA purposes, but such payments do not give rise to payee indebtedness or expose disbursing or certifying officers to financial liability. Such payments are not “erroneous” as that concept applies in most contexts. Similarly, inadequately documented payments may be “improper” for purposes of IPIA reporting but not “erroneous.” Reports and audits should avoid substituting the term “erroneous” payment for “improper” payment.

140202. DoD Improper Payment Information Act Program. DoD identified six programs to encompass all payment types. Entitlement programs are Military Pay, Civilian Pay, Travel Pay, Military Retirement, and Military Health Benefits. A sixth program, Commercial Pay, includes contract and vendor payments. Separate guidance for the audit and recovery of commercial payments is established at Volume 10, Chapter 22 “Recovery Audit.”

140203. Improper Payments Threshold. The IPIA mandates reporting for programs with estimated annual improper payments that exceed \$10 million. OMB Circular A-123, Appendix C, expands this requirement by additionally requiring reporting for programs with estimated annual erroneous payments exceeding 2.5 percent of program payments. However, OMB reserves the right to require agencies to report on programs not meeting the threshold criteria (typically, the exceptions are high visibility areas or programs with high dollar improper payments that remain below the percentage threshold). In addition, OUSD(C) requires quarterly reporting for the Travel Pay program to facilitate Component implementation of stronger travel payment internal controls.

140204. Statistical Sampling. Statistical sampling plans must have a minimum probability confidence level of 90 percent and sampling precision of plus or minus 2.5 percentage points to qualify for use in estimation of annual improper payments within each program population. An alternative probability confidence level of 95 percent and sampling precision of plus or minus 3 percentage points may be used.

140205. Non-reporting Components. Non-reporting Components are defined as those Components that do not process (compute) payments regardless of the disbursing entity (i.e., computation and disbursement are performed by another Component on behalf of a Component).

1403 REQUIREMENTS

140301. Risk Assessment. Components are required to conduct risk assessments for any payment computation activity where the risk level is unknown or is not currently measured and reported. Components continue these assessments annually until the risk levels

are determined and baseline estimates are established. Component management internal control programs should include annual review of the payment computation processes in order to identify weaknesses in internal controls and determine where the potential for error is the greatest. Once baselines are established and results are measured and reported, the measurement and reporting process may replace the separate annual risk assessment. However, known or anticipated significant changes in processes or other risk factors may necessitate reestablishing or continuing the risk assessment process. Such activities must be reported to the OUSD(C), A&FP Directorate. Federal standards for internal control are provided for in OMB Circular A-123. Additional information about standards is available at <http://www.gao.gov>, Standards for Internal Control in the Federal Government, GAO/AIMD00-21.3.1.

140302. Statistically Valid Sampling Plan

A. Develop a sampling plan and submit to the OUSD(C), A&FP Directorate by October 31st for use in that October 1 – September 30 fiscal year. Sampling plan revisions must also be submitted. The sampling methodology used must contain the following elements:

1. Define the total payment population and purpose of the review (e.g., random reviews of pay accounts often serve more than one purpose).
2. Describe the sample design to include sample type (i.e., simple random, stratified, or other type), probability and precision levels, frequency of reviews, and selection method.
3. Identify automated systems that support the population and processes associated with payments.
4. Describe the review process performed and documents used by reviewers such as checklists to analyze the results.
5. Describe methods for correcting or initiating correction of improper payments detected among the sampled population.

B. Components with a low volume of transactions may perform 100% review of all payments rather than perform random reviews. Document pre- and postpayment review process and submit to the OUSD(C), A&FP Directorate by October 31st for use in that October 1 – September 30 fiscal year.

140303. Review. Review a statistically valid sample of pay accounts, vouchers, or claims for each program applicable to the Component. Identify the root causes of improper payments and develop corrective action plans to address the root causes of error. Estimate the amount of improper payments for the total population based on the sample results.

1404 REPORTING

140401. Annual Survey – All Department of Defense Improper Payment
Information Act Programs

A. DoD Components must report improper payment data annually to OUSD(C), A&FP Directorate for all programs. A&FP will report the results at the program level in the DoD Agency Financial Report (AFR). In order to meet the AFR reporting schedule, fiscal year end reporting is accelerated. Component annual IPIA reports must be submitted by the 10th business day in September.

B. Annual survey submissions will be based on disbursements in the fiscal year reported. To facilitate the accelerated reporting schedule for the AFR, fourth quarter data may be estimated based on performance in the first, second, and third quarters. Alternatively, the fourth quarter data from the prior year may be substituted, resulting in a one-quarter lag for annual reporting. Either estimation must be disclosed in the narrative section of the submission. Table 14-1 identifies DoD Components responsible for reporting by IPIA program.

C. The annual report is two-part. Provide the results of the postpayment review in Part I:

1. Dollar amount of the total payment population subject to review. Identify the total population if different than the total population subject to review and then explain the difference.

2. Dollar amount of the sample population.

3. Dollar amount of overpayments identified in the sample population.

4. Dollar amount of underpayments identified in the sample population.

5. Dollar amount of total improper payments identified in the sample population (absolute value of over- and underpayments).

6. Percent of improper payments identified in the sample population.

7. Dollar amount of overpayments estimated for the total population.

8. Dollar amount of underpayments estimated for total population.

9. Dollar amount of total improper payments estimated for the total population (absolute value of estimated over- and underpayments).

D. Provide the following narrative in Part II:

1. Categorize improper payments as Authentication and Medical Necessity, Verification and Administration, or Federal Administration and Documentation. Table 14-2 provides OMB descriptions of these categories and examples.

2. Identify root causes of improper payments in each error category.

3. Identify the percentage of each error category in relation to the total error percentage.

4. Describe ongoing or planned corrective action, including a timeline, to reduce/eliminate future errors. Corrective actions must be associated with a specific root cause.

5. Describe any obstacles hindering corrective actions (information systems, infrastructure, statutory, or other).

6. Identify budget data for each program and reconcile to the total payments for each program.

7. For programs that report net versus gross pay amounts, provide the total gross pay amounts for each program.

8. For Travel Pay, identify the type of travel payments being processed outside of the Defense Travel System (DTS). If DTS currently supports this type of travel, then identify the expected date of DTS implementation. Note: Pursuant to authority conferred by Management Initiative Directive (MID) 921 and the Under Secretary of Defense (Personnel and Readiness), DTS is targeted to be the single, online travel system used by the Department. This mandate applies to all travel functions currently supported by the system and those that will be supported in the future as they become available.

140402. Annual Reduction Targets – All DoD Improper Payment Information Act Programs. Improper payment reduction targets for the out-years are due annually on the last business day in April. Provide the outlays, percentages, and dollars; for prior year (PY), current year (CY), and three out-years (CY + 1, CY + 2, and CY + 3) by program. Provide actual data for prior year; estimate data for the remainder of the current year which will be incomplete at the time reduction targets are required; and estimate data for the out-years. The out-years total payment estimates must match the outlay estimates in the most recent President's Budget. The required format is described in the OMB Circular A-136, Section II, Other Accompanying Information, IPIA Reporting Details.

140403. Quarterly Survey – Travel Pay

A. In addition to the annual report, all Components that compute travel pay entitlements are required to review and report improper payment data quarterly. The report is cumulative and sorted by quarter. The required data and reporting format for Travel Pay is the

same as the annual survey format. Therefore, the fourth quarter travel report will satisfy the annual requirement.

B. First, second, and third quarter Travel Pay reports are due on the 15th business day after the end of each quarter, unless otherwise notified. The fourth quarter travel report must be submitted by the 10th business day in September, unless otherwise notified to meet the AFR reporting schedule.

C. The Defense Finance and Accounting Service (DFAS) is responsible for review and reporting improper payment data for entitlements computed by DTS and the Integrated Automated Travel System for Windows (WinIATS) for the Department of the Army. DoD Components are required to review and report all improper payment data for travel pay entitlements computed outside of DTS and Army WinIATS, regardless of whether DFAS is the disbursing entity. Table 14-1 identifies Components responsible for reporting.

D. The Defense Travel Management Office (DTMO) is the functional proponent for DTS. The OUSD(C), A&FP Directorate will provide quarterly travel survey results to the DTMO Strategic Planning and Policy Division to assist with their efforts to identify and resolve travel related issues for the Department.

140404. Non-reporting Components

A. DoD Components that do not process payments are non-reporting Components and are not required to accomplish the annual or quarterly surveys. Non-reporting Components are required to annually attest in writing (email) to the OUSD(C), A&FP Directorate, that they do not process (compute) payments. Table 14-3 identifies non-reporting Components. This attestation shall establish:

1. That the Component does not process (compute) payments;
2. The identity of the Component(s) that processes payments for the non-reporting Component; the type of payments processed, and the budget amount for such payments.

B. Any changes in reporting status must be reported immediately to the OUSD(C), A&FP Directorate.

★ Table 14-1. DoD Systems and Components identified for IPIA reporting.

IPIA Program	System Name	System Owner/User	Post Pay Review and Reporting for IPIA
Civilian Pay	Defense Civilian Pay System (DCPS)	DFAS	DFAS
	Unified Civilian Mariner Payroll System (UCPS); Spanish Local National Payroll (LNPS)	Military Sealift Command; NAVSTA Rota Spain	Navy
	Italian Local National Payroll System (LNPS)	Army, 266 th Finance Command, Europe	Army, 266 th Finance Command, Europe
Military Pay	Defense Joint Military Pay System – Active Component (DJMS-AC)	DFAS for Air Force, Army, Navy	DFAS
	Defense Joint Military Pay System Reserve Component (DJMS-RC)	DFAS for Air Force, Army, Navy	DFAS
	Marine Corps Total Force System (MCTFS)	United States Marine Corps (USMC)	DFAS
Military Retirement	Defense Retiree and Annuitant Pay System (DRAS)	DFAS	DFAS
Travel Pay	Defense Travel System (DTS)	USD(P&R), Defense Travel Management Office (DTMO) for DoD-wide users	DFAS
	Integrated Automated Travel System for Windows (WinIATS)	DFAS for Army users	DFAS
	WinIATS; Corps of Engineers Financial Management System (CEFMS)	United States Army Corps of Engineers (USACE)	USACE
	WinIATS	Navy	Navy
	Reserve Travel System (RTS)	Air Force	Air Force
	WinIATS	Army, 175 th FMC, Korea	Army, 175 th FMC, Korea
	WinIATS	Army, 266 th Finance Command, Europe	Army, 266 th Finance Command, Europe
	N/A (manual processing)	manual processing for TRICARE Management Activity (TMA)	TMA
	N/A (manual processing)	manual processing for National Geospatial-Intelligence Agency (NGA)	NGA
Military Health Benefits	N/A (manual processing)	manual processing for American Forces Information Service (AFIS)	AFIS
	N/A (contracts)	TMA contracts	TMA

★ Table 14-2. OMB Descriptions of Improper Payment Categories.

1. Authentication and Medical Necessity	Examples
<p>(a) Unable to authenticate criteria such as living arrangement or qualifying child through third party sources; or</p> <p>(b) Incorrectly assessing the necessity of a procedure (e.g., medical judgment).</p>	<ul style="list-style-type: none"> ❖ Errors in payments based on procedure being medically unnecessary where errors in determining medical necessity of a procedure are made, result in an incorrect payment. ❖ Other eligibility criteria (e.g., non employment/earnings/assets) where program eligibility or payment is dependent on other factors, such as living arrangement, qualifying children, household composition. Errors occur when one of these factors is reported incorrectly. ❖ Authenticating whether a certain student or group of students actually physically received a school lunch or lunches during a time period. ❖ Determining on a family-by-family basis whether or not a group of individuals regularly eats together as a group.
2. Verification and Local Administration	Examples
<p>(a) Not verifying recipient including earnings, income, assets, or work status; or</p> <p>(b) Input, classify, or process applications or payments incorrectly by a state agency or third party (e.g., local program administrator) who is not the beneficiary.</p>	<ul style="list-style-type: none"> ❖ Errors in payments based on earnings/income where program eligibility or payment is dependent on earnings, income, or work status. Errors occur when one of these factors is reported incorrectly. ❖ Errors in payments based on assets where program eligibility or payment is dependent on assets. Errors occur when assets are reported incorrectly. ❖ Errors in payments based on personal status (e.g., age/DOB, citizenship, residency) or work status. ❖ State agency/third party error where administrative errors are made by state agencies or third parties (who are not beneficiaries) including inputting, classifying, or processing applications or payments.
3. Federal Administration and Documentation	Examples
<p>(a) Input, classify, or process applications or payments incorrectly at the Federal level; or</p> <p>(b) Lacking all of the supporting documentation necessary to verify the accuracy of the claim.</p>	<ul style="list-style-type: none"> ❖ Documentation errors where payments cannot be considered proper due to lack of sufficient documentation. ❖ Federal agency errors where errors are made by the federal agency in inputting, classifying, or processing applications or payments. ❖ Erroneous payments made to contractors due to inaccurate invoices.

★ Table 14-3. DoD Non-reporting Components for IPIA.

Defense Advanced Research Projects Agency (DARPA)
Defense Commissary Agency (DeCA)
Defense Contract Audit Agency (DCAA)
Defense Contract Management Agency (DCMA)
Defense Human Resources Activity (DHRA)
Defense Information Systems Agency (DISA)
Defense Intelligence Agency (DIA)
Defense Legal Services Agency (DLSA)
Defense Logistics Agency (DLA)
Defense Prisoner of War/Missing Personnel Office (DPMO)
Defense Security Cooperation Agency (DSCA)
Defense Security Service (DSS)
Defense Technical Information Center (DTIC)
Defense Technology Security Administration (DTSA)
Defense Threat Reduction Agency (DTRA)
Department of Defense (DoD) Test Resource Management Center (TRMC)
Department of Defense Education Activity (DoDEA)
Department of Defense Inspector General (DoD IG)
Missile Defense Agency (MDA)
Office of Economic Adjustment (OEA)
Pentagon Force Protection Agency (PFPA)
Washington Headquarters Service (WHS)